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MBFR: Despite their lingering fears that the West is conceding too much to the Soviets, the British this week finally abandoned their last objection to the agreement between Warsaw Pact and NATO states on Hungarian participation. This clears the way for a plenary session on Monday to record the agreement that makes Hungary and seven other states "special participants."

At the session, each side will also read a statement making it clear that their agreement on Hungary's status is far from complete. The Western side will assert that the agreement on procedures does not foreclose future Hungarian participation; Hungary will reply that any participation by it will depend upon fulfillment of "appropriate conditions." The Eastern side will also state unilaterally that other European states not yet involved in the talks might be invited to participate as observers.

Following the plenary, the negotiators in Vienna will move on to consideration of the timing and agenda for the full MBFR talks. Present indications are that the talks will begin in September or October, but detailed discussion of the agenda may be held over until the talks start. The preparations could be slowed, however, because the Soviets have given indications that they will not agree to a starting date for MBFR until a date is set for opening the Conference on Security and Cooperation in Europe. 25X1

WEST GERMANY: Bonn's new anti-inflationary package lacks any direct measures to hold down prices and wages and may not even be able to withstand the heavy criticism that is certain to arise.

The most important measure--the 11-percent tax on investment--will be beneficial only in the long run. The elimination of accelerated depreciation on business buildings and the reduction in tax benefits for individual homeowners will not significantly slow construction activity this year. Consumers will view the gasoline tax increase as an added burden at a time when the cost of living is rising rapidly. They will find little comfort in the government's plan to suggest improvements in the EC's Common Agricultural Policy this fall in an effort to reduce food costs.

While few will object to proposed reductions in government spending and borrowing, these measures will have little effect on inflation. Most government spending is already fixed by law, and only about $350 million in capital expenditures can be cut this year.

The government continues to shy away from price and wage freezes and hopes to rely instead upon voluntary restraints. Although labor leaders may be willing to exercise restraint, rank-and-file workers still may demand increases in excess of the 8.5-percent government guideline. In the absence of price guidelines, businessmen will have difficulty divesting themselves of the "inflation consciousness" the government program was expected to attack.

Monetary policy will continue to be the major tool used to fight inflation in West Germany. Bundesbank President Karl Klasen has said he will back the government's efforts, but he probably will press the government to give the bank broader powers.

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PANAMA: Panama's promised reply to the US position paper of last February has been postponed for a third time. The government appears unable to produce papers that go beyond detailed criticism of US positions and adamant reiteration of Panama's most extreme formulations. Foreign policy advisers, fearing to appear less nationalistic than General Torrijos or Foreign Minister Tack, are avoiding the issue of what to do next. [redacted] 25X1

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Members of the long-inactive traditional political parties have begun to criticize the government's lack of movement. They are suggesting that the Torrijos-Tack line on the canal issue has outlived its usefulness and are offering alternatives. This development may cause Torrijos to hurry the resumption of negotiations, but purely as a cosmetic gesture. There is still no reason to expect any constructive change in the Panamanian position.

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